

Message Text

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ACTION SS-30

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O 071330Z DEC 73
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC IMMEDIATE 8337

C O N F I D E N T I A L NEW DELHI 14380

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EXDIS

FOR LAINGEN, NEA FROM SCHNEIDER

E.O. 11652: GDS
TAGS: EFIN, IN
SUBJECT: RUPEES: STATUS REPORT

1. ALTHOUGH WE HAVE MADE GOOD PROGRESS ON ALL THE SUBSTANTIVE
ISSUES WHERE WE MIGHT HAVE EXPECTED MAJOR DIFFICULTIES, THE
PROBLEM I MENTIONED IN OUR 14253 HAS BECOME MORE SEVERE.

2. FIRST THE GOOD NEWS. WE WERE LESS THAN ENTHRALLED WITH
THE AVALANCHE OF DRAFTING CHANGES WHICH WE RECEIVED THIS MORN-
ING. NEVERTHELESS, IN OUR GOOD BOY SCOUT TRADITION, WE HAVE
ACCEPTED ALL OF THEM AND EXPECT NO DIFFICULTIES IN SECURING
GOI ACCEPTANCE (THOUGH THIS DOES EAT INTO OUR STORE OF GOOD
WILL).

3. KRISHNASWAMI TELLS US THAT HE HAS BEEN UNABLE SO FAR TO
FIND ANY PRECEDENTS FOR A GOI VETO ON CONTRIBUTIONS TO INTER-
NATIONAL ORGANIZATIONS. IF HE CANNOT FIND ANY BY TOMORROW, WE
EXPECT HIM TO AGREE TO THE DELETION OF PARAGRAPH 10.

4. KRISHNASWAMI HAS ALSO TOLD US THAT HE IS PREPARED TO SEND
US A LETTER APPROVING, IN PRINCIPLE, LONG-PENDING AGRICULTURAL
RESEARCH PROJECTS. FORMAL APPROVAL WOULD NOT COME UNTIL MARCH
FOR THE REASONS INDICATED BELOW. THE AGRICULTURE COMMITTEES
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COULD BE INFORMED OF THIS APPROVAL IN PRINCIPLE. AGRICULTURAL
MARKET DEVELOPMENT IN INDIA IS AN ESTABLISHED USE OF RUPEES
AND THERE SHOULD BE NO DIFFICULTY IN USING OUR RUPEES FOR
THIS PURPOSE.

5. NOW FOR THE BAD NEWS. TO BOTH THE EMBASSY'S AND THE DOI'S DISMAY AND SURPRISE WE FIND THAT EXISTING OBLIGATIONS, I.E., COMMITMENTS WHERE FUNDS WILL NOT HAVE BEEN DISBURSED BEFORE MARCH 1, 1974, REACH A GRAND TOTAL OF 274 MILLION RUPEES. WE HAD ALWAYS KNOWN THAT THERE WOULD BE SOME OBLIGATIONS OF THIS SORT WHICH WOULD HAVE TO BE FUNDED FROM RUPEES WITHHELD FROM THE GRANT TO THE GOI, BUT NO ONE EXPECTED THE NUMBER TO BE SO LARGE. THESE INCLUDE AID PROJECTS, 120 MILLION RUPEES; FBO, 45 MILLION RUPEES; JOINT RESEARCH PROJECTS OTHER THAN ARS, 91 MILLION RUPEES; AND ARS, 18 MILLION RUPEES.

6. KRISHNASWAMI'S AND KAUL'S ORIGINAL POSITION WAS THAT WE SHOULD FUND THESE OBLIGATIONS OUT OF OUR RETAINED RUPEES, AND SPECIFICALLY, FROM OUR COOLEY LOAN REFLows. WE ARGUED THAT IT WAS QUESTIONABLE WHETHER THE COOLEY LOAN REFLows, AT LEAST IN THE INITIAL YEARS, WOULD BE ADEQUATE TO HANDLE THESE OBLIGATIONS, AS WELL AS OTHER OBLIGATIONS SUCH AS AID TO NEPAL. HOWEVER, MUCH MORE IMPORTANT THAN THIS WAS THE POSITION OF PRINCIPLE THAT THESE WERE OBLIGATIONS MOST OF THEM MADE MANY YEARS AGO AND WE SHOULD NOT BE PUT IN A POSITION WHERE WE ARE GRANTING DOLS 2.2 BILLION TO INDIA AND THEN TURN AROUND AND HAVE TO SPEND A FEW MILLION MORE. INITIALLY THE GOI APPEARED TO BE WILLING TO RECEDE ON THIS POINT, BUT WHEN WE HAD TO PASS ON YOUR 239411 RE 91 MILLION RUPEES IN JOINT RESEARCH PROJECTS, THE KRISHNASWAMI REACTION WAS EXTREMELY STRONG. HE STATED IN THE HEAT OF THE MOMENT THAT HE DID NOT BELIEVE THAT THE GOI WOULD BE PREPARED TO ACCEPT THE ESTABLISHMENT OF AN ACCOUNT OF THIS SIZE, THE ISSUE WAS OF SUCH A MAGNITUDE THAT DECEMBER 11 SIGNING WAS UNLIKELY, AND THAT THE GOI MIGHT INSIST ON THE TOTAL DELETION OF THIS ACCOUNT, I.E., USG WOULD HAVE TO FUND ALL EXISTING COMMITMENTS. WE HAVE NO INDICATION, HOWEVER, THAT THE FINANCE MINISTRY HAS WITHDRAWN ITS SUBMISSION TO THE CABINET, WHICH STILL MAY MEET AS EARLY AS THIS EVENING ON THE RUPEE QUESTION.

7. I HAVE MADE IT ABUNDANTLY CLEAR TO KAUL THAT WE
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CANNOT RECEDE ON THIS POINT AND POINTED OUT IN MY LETTER TO PNDHAR THAT A HAGGLE OVER DOLS 40 MILLION IN RUPEES SHOULD NOT JEOPARDIZE A DOLS 2.2 BILLION AGREEMENT OF SUCH CONSEQUENCE. HAVING MADE OUR POSITION CLEAR, WE WILL WAIT TO SEE IF THERE IS A CABINET DECISION. IF THE DECISION IS FAVORABLE TO US, THIS RESOLVES THE LAST OBSTACLE TO DECEMBER 11 SIGNING. IF NOT, WE SHALL HAVE TO SEE WHERE WE GO FROM HERE.

8. WOULD YOU PLEASE PASS ON THE ABOVE TO THE AMBASSADOR AND IF HE WOULD LIKE TO TELEPHONE ME, I WILL BE HOME THIS EVENING.
SCHNEIDER

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